**Red Sea Crisis: Domino Effect**

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Shipping is the lifeblood of the global economy. Some 11 billion tons of goods are transported by ship each year. Without shipping, intercontinental trade, the bulk transport of raw materials, and the import and export of affordable food and manufactured goods would simply not be possible.

For an economic region such as the European Union, shipping accounts for 80 percent of total exports and imports by volume and some 50 percent by value. Waterways have been considered the main mode of trade for hundreds of years, mainly due to the convenience and low cost of transporting goods. But recently, this safe path has become unstable. In addition to man-made problems in the waterways, the climate change crisis has added to this, which has made imports and exports more volatile.

The Israeli-Palestinian conflict in the Middle East has expanded beyond two nations. Yemen’s Houthi rebels, expressing solidarity with Palestine, have been targeting Israel-linked ships in the Red Sea in response to the latter’s devastating war in the Gaza Strip. The crisis deepened after the intensification of counter-attacks on the rebel groups by the UK and the US. The mounting tension has huge ramifications for countries that use the route to send products to Europe.

The Suez Canal, which connects the Red Sea to the Mediterranean, is the shortest route between Europe and Asia. Around 12 per cent of global trade passes through the Suez Canal, representing 30 per cent of all global container traffic, especially from South Asia, and more than $1 trillion worth of goods annually. According to the White House, 8 per cent of the global grain trade, 12 per cent of seaborne-traded oil, and 8 per cent of the world’s liquefied natural gas trade pass through the Red Sea.

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The shipping lines are now diverting to a much longer route, around Africa’s Cape of Good Hope, following attacks last month on commercial vessels on the Red Sea, one of the world’s busiest shipping routes. William Bain, the trade expert of the British Chamber of Commerce, said: “About 500,000 containers were going through the Suez Canal in November, and that had dropped 60 per cent to 200,000 in December.”

The Shanghai Containerized Freight Index (SCFI) report says that due to the conflict in the Red Sea, each ship has to spend an extra 10 days to reach its destination. By doing this, the cost of 25,000 dollars per 20-foot container has exceeded 3,000 dollars. In this situation, due to an increase in time on the one hand and a cost increase on the other, the price of oil and gas will increase much more than before.

Global freight rates are rising again. Industry analysts warned that the security threat in the Red Sea could see prices double over the next few weeks. Meanwhile, major shipping lines announced plans to impose additional surcharges ranging from $700 to $1,500 per TEU container from January. For example, French company CMA CGM imposed a “Peak Season Surcharge” (PSS) of $500 per TEU from January 1 to all European ports from all Asian ports, including India, Pakistan, Bangladesh, and Sri Lanka. The decision already greatly impacts the cost of shipping goods, and if it becomes an extended crisis, it could spark a hike in the price consumers pay for imported goods, which is expected to fuel subdued inflation again.

Due to the security threat in the Red Sea, most of the world’s largest shipping companies-namely Maersk, MSC, Hapag-Lloyd, CMA CGM, ZIM, and ONE-are largely or completely rerouting their vessels around Africa’s Cape of Good Hope, which eventually led to a rise in operation costs and time extensions since they would have to travel an additional 3,500 kilometres.

The protracted Red Sea crisis may hurt Bangladesh’s exports, stoke inflationary pressures, and delay the recovery of the economy. Bangladesh’s apparel sector is highly dependent on the route, as nearly 70 per cent of the country’s clothes are exported to European countries. Due to the container shortage and increased lead time, exporters are losing orders across the world.

As ships are rerouting and owners are demanding a $10-$12 additional freight rate, exporters and importers will also have to pay higher freight charges. This may also compound pressure on the foreign exchange reserves of the country, as the increased cost of frights will have to be borne in foreign currencies. Not only that, but it will be tough to get ships if the crisis lingers, affecting the business.

Usually, it takes 30 to 35 days for ships to reach European destinations through the Red Sea from departing transhipment ports in Sri Lanka, Singapore, and Malaysia. At least 10 more additional days will now be needed. This will raise freight costs, which domestic garment suppliers will ultimately have to bear. Garment exporters will have to choose expensive air shipments if suppliers fail to deliver products within the agreed-upon time. But, in the case of air shipments, the cost will be too high.

The Houthis say they will target ships linked only to Israel. However, as the Red Sea, one of the busiest shipping routes to Europe, has become more dangerous due to Houthi attacks and strikes by the US and its allies against them, the world may see another supply chain crisis.

Energy supplies could be substantially disrupted, leading to a spike in energy prices. This would have significant spillovers to other commodity prices and heighten geopolitical and economic uncertainty, which in turn could dampen investment and lead to a further weakening of growth.

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